Annual Report 1994

"We'll give customers *the* leadership to succeed."

John T. McLennan, president and chief executive officer

Bell

Bell Canada: Adding value to communications

The *evolution* of leadership

On December 8, 1994, Bell Canada introduced a bold and distinctive new corporate identity. Developed by Jocelyne Forgues Béland, Jean-Pierre Gagnon and Michel Martin – Bell's in-house design team – in collaboration with independent designer Gilles Brault, the new identity signals the changes Bell is making to create a customer-driven communications and information company.

At the centre of the new logo (pictured below) is a human profile, representing the people of Bell and the focus of all their efforts: the customer. The two open rings that encircle the profile symbolize the dynamic future of global telecommunications. The Bell name, set in a new typeface, conveys both strength and vigor – a graphic representation of how the company supports customers in all their communication needs.

To respect cost concerns, the new identity will be phased in gradually, on a no-waste basis, as budget permits. Implementation costs in 1995 will not exceed $500,000.

Bell Canada, a subsidiary of BCE Inc., is Canada's largest supplier of telecommunications services. With one of the world's most robust and reliable public switched networks, Bell provides advanced voice, data and image communications to more than seven million business and residence customers in Ontario and Québec. All of Bell's long distance switches are served by digital technology, and 99 per cent of local switches are also fully digital.

The company's operations are federally regulated by the Canadian Radio-television and Telecommunications Commission (CRTC).

In 1994, Bell Canada posted consolidated total operating revenues of approximately $8 billion, 81 per cent of which were generated by local and long distance telecommunications services. At the end of 1994, Bell provided some 9.7 million network access services, accounting for about 93 per cent of all such services supplied by telephone companies in Ontario and Québec and about 57 per cent in Canada.

Bell owns a 100 per cent interest in the directory business division of Tele-Direct (Publications) Inc. This division sells telephone directory advertising and publishes white pages and Yellow Pages* directories. Bell also owns 100 per cent of Bell Sygma Inc. and WorldLinx Telecommunications Inc.

Bell Canada is a member of Stentor – an alliance of Canada's major telecommunications companies.

*Trademark of Tele-Direct (Publications) Inc.

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Competitive services

For Ian McElroy, president and CEO of Bell's competitive services group, a key aspect of Bell's new structure is "focus." The changes, he says, have enabled the company "to put more focus on the customer and, from an internal perspective, more focus on financial accountability." The competitive services group comprises Bell's long distance business, Signature Service and major business sales forces, multi-line terminals business, operator services, public telecommunications and telemarketing.

Local services

As the main point of entry for most customers, the local services group has a unique role to play. In the words of its president and CEO Louis Tanguay, the group must ensure that customers "have simple, seamless access to Bell's staff and services." The local services group includes network operations, the Carrier Services group, Phonecentre and Téléboutique operations and business office, billing, and collection operations.

Business development and technology

Under the leadership of John MacDonald, executive vice-president – business development and chief technology officer, this group is responsible for business development in multimedia, personal communications services and advanced intelligent network services. Also managed under this group are network development, including network architecture, platform selection and technology standardization, as well as Bell's strategic alliances with MCI and Bell Atlantic.

The Canadian telecommunications industry is on the threshold of a new era. In the last few years, the Canadian Radio-television and Telecommunications Commission (CRTC) has been taking steps which will profoundly reshape Canada's information and communications landscape.

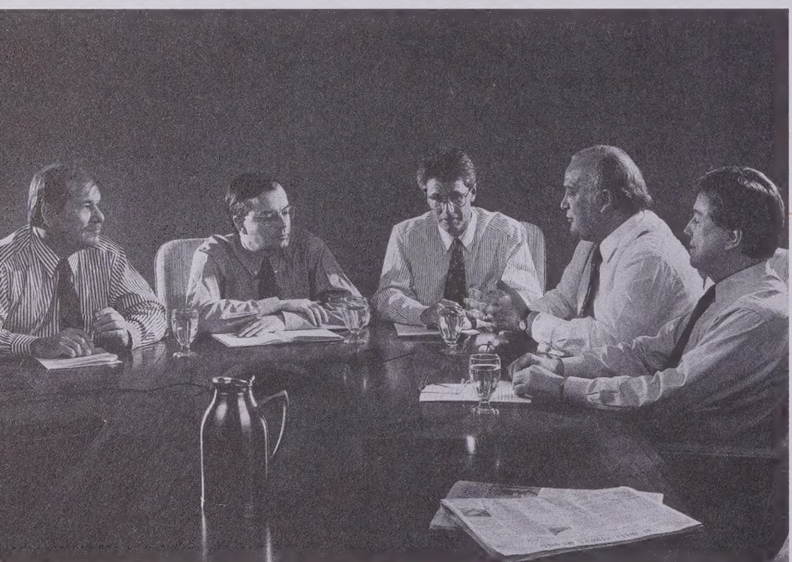
For Bell Canada, the new regulatory environment is having a dramatic impact. The entry of competitors into the long distance market has brought important customer benefits. The events of the last few years, however, should not be mistaken for deregulation.

In order to bring customers the benefits a competitive environment offers, Bell needs the freedom to adjust to market forces. If we are to become Canada's premier communications and information company for the twenty-first century, we need the freedom that would come from less restrictive regulation.

We are well-positioned to lead. We have a dedicated and skilled workforce and a fine executive team. We have the largest customer base in Canada, and a network infrastructure worth nearly $17 billion that generated some $8 billion in revenues in 1994. In addition, we have the privilege of being a key member of the BCE family – Canada's strongest partnership of telecommunications companies.

We're also fortunate to be part of an industry with virtually unlimited growth possibilities. As John Naisbitt, one of the world's leading trend forecasters, has predicted, "telecommunications will provide the infrastructure every industry and every company will need to compete in a truly cosmopolitan marketplace."

Bell *needs the* freedom *to adjust* to market forces.



Bell's new executive leaders: bringing the benefits of teamwork to customers.

Bell's new executive team. From left to right: *Louis A. Tanguay, president and CEO, local services; John A. MacDonald, executive vice-president – business development and chief technology officer; Ian D. McElroy, president and CEO, competitive services; Gerald T. McGoey, chief corporate officer; and John T. McLennan, president and CEO, Bell Canada.*

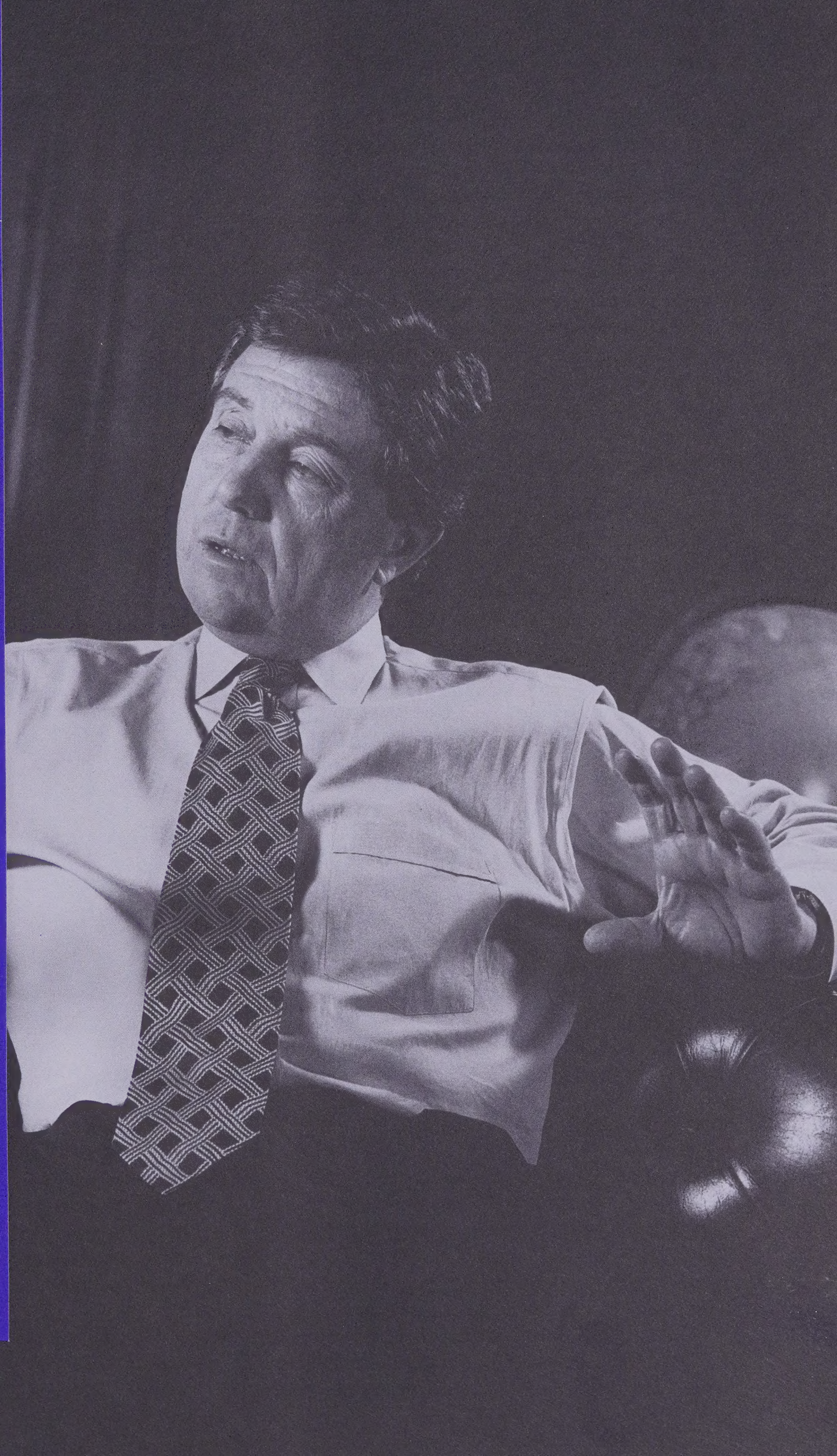
Everything to gain

There is promise in the direction in which our industry is moving. Like every major evolutionary movement, however, our industry's progress has come with a price.

Competition means that, by the end of 1994, Bell had lost 22 per cent of its long distance market share, a far more rapid and substantial erosion than

John McLennan on Bell's vision

"Our vision starts with customers. We're listening and *acting* on what we hear."



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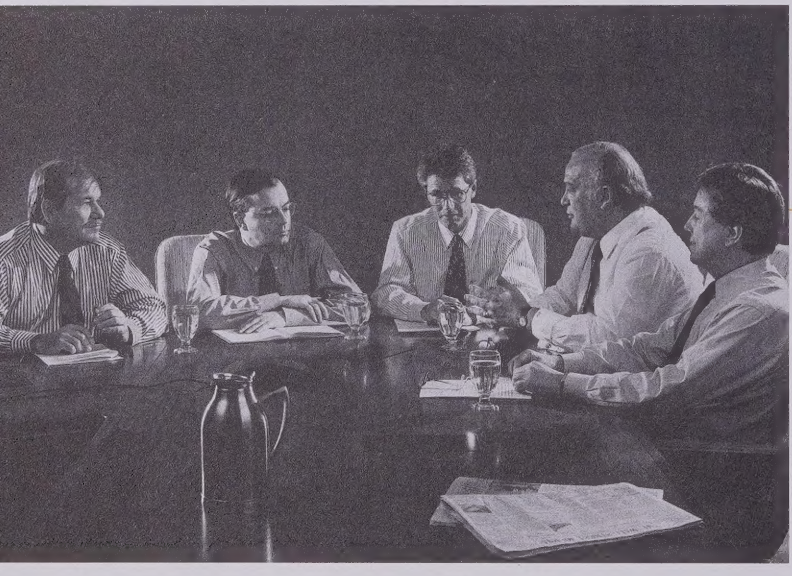

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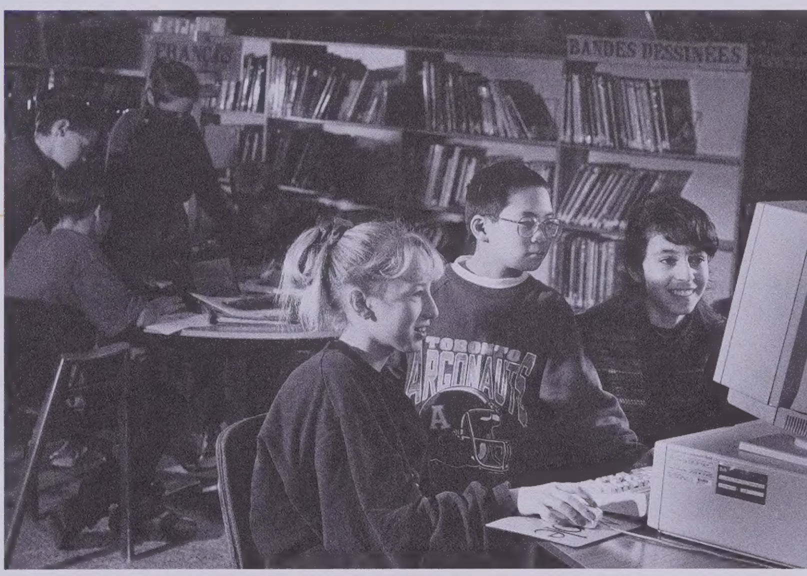
John McLennan on Bell's new executive team

"We have a leadership team that's second to none in the industry – anywhere in the world."

John McLennan on creating value

"Our customers expect us to provide more than discount pricing. They also want value, and that's what we're focused on creating."

The price of progress *is steep,* but the potential reward *is great.*



By simulating a city-wide environment, the Beacon™ video-on-demand trials bring new meaning to virtual reality.

occurred when the United States opened up its telephone market in 1978. It took AT&T's long distance competitors almost 10 years to gain this much market share.

In terms of providing financial support for the local business, the new entrants are not contributing to the same degree we are; indeed, they're paying less than 50 per cent of what Bell's long distance operations must contribute.

This is straining our ability to invest as well as our ability to serve customers. It also puts increasing pressure on local rates, much more so than was expected when competition emerged. This pressure is now severe, and since Bell has had no general local-rate increase since 1983, it is being reflected in the company's deteriorating financial performance.

The price of progress is indeed steep. But it is a price we have been willing to pay – and are willing to continue paying – because its potential reward is great: our destiny will be in our own hands and, by extension, in the hands of our customers.

Getting back on track The road to open markets, however, is fraught with obstacles, detours and unexpected stops.

In the fall of 1994, Bell and its Stentor partners enthusiastically greeted the CRTC's decision on the regulatory framework, confident it would allow us to refocus our perspective and refresh our vision of the Canadian communications and information business.

We could not anticipate that only a few weeks later the Federal Cabinet would put key aspects of the CRTC's decision on hold. Nor could we anticipate that the CRTC would have second thoughts about its verdict on contribution, which was two years in the making. These events were a bitter disappointment to Bell.

Despite such setbacks, Bell, its Stentor partners and Canada's other telephone companies will work with the CRTC and the federal government to resolve these issues. They are crucial in an open telecommunications environment.

A winning strategy As the regulatory environment redefines our industry's working parameters, we will seize opportunities to reshape our company. We must rationalize our business practices, and position ourselves to take full advantage of technological innovations. We must prove that we can transform ourselves and consolidate our leading position in a marketplace that, increasingly, has no room for worn ideas and old-fashioned notions of corporate performance.

On January 1, 1995, in a first step towards Bell's redefinition, we reorganized the company into four business units, including a competitive services unit and a local services unit. This new structure allows each of the company's key areas of operation to exercise greater accountability for profit and loss.

Our new executive team has been reviewing the company's business strategy, capital and cost management and technological development. The trends adversely affecting our performance – notably declining long distance revenues – have intensified and show no signs of abating in the short term. This is not a surprise. We expected the difficulties we faced in 1994 to carry over into 1995.

These trends have placed increased pressure on our earnings. To address this, we are implementing a three-year plan aimed at helping us match or exceed the profitability benchmarks which the company established in the past.

A critical part of this three-year plan is our business transformation program. We are re-engineering our processes and management systems to improve service to our customers. At the same time, we'll make sure that our employees have the right knowledge, skills and competencies needed to help the company succeed in a market which increasingly demands these qualities.

Our customers have choice The change in our corporate culture reflects the more intensive and effective approach we've brought to our sales methods in the last couple of years. These methods are working, because our competitors have been crying foul.

We will **seize** *opportunities to* **reshape** *our* company.

Working together to achieve spectacular results.

Bell's dynamic new corporate identity was created and developed by in-house designers Jocelyne Forgues Béland (front left), *Jean-Pierre Gagnon* (front right) *and Michel Martin* (back right), *in collaboration with independent designer Gilles Brault* (back left).

Although she doesn't use a crystal ball or read tea leaves, Rita Laframboise is skilled at seeing the future – the future needs of her customers, that is.

As a service representative for small- and medium-sized businesses, Rita works closely with her customers, providing information and advice that can help them develop and succeed.

"Our customers have invested in Bell," she says, "and we want to maximize their investment by giving them the best products and services we can. That means suggesting services they might not be aware of, as well as services that are flexible enough to grow with our customers as their needs change."

Rita Laframboise,
Bell Canada sales and service representative, Laval, Québec.

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John McLennan on anticipating customers' needs

"As a leader in our field, we're dedicated to providing products and services that will suit customers' needs today, tomorrow and in years to come."

John McLennan on partnership

"If any one thing characterizes the new Bell, it's partnership. This means building relationships with customers and contributing to *their* success."

In a marketplace *this* dynamic, *no one* supplier can control *prices.*

Delivering quicker, more efficient solutions.

During the past 12 months, in particular, our competitors have accused Bell of being too aggressive in the long distance war. It's ironic, however, that no one complained when we started dropping our long distance rates in 1987, well before the CRTC's 1992 decision on competition. At least one of our current competitors took credit for these price decreases and promised – correctly – that there would be even more after his company entered the market. Now, it seems, there is too much of a good thing.

The current pricing picture is the product of very favorable entry conditions, which attracted more competitors than expected. These long distance carriers chose to compete largely on price, claiming spectacular discounts on Bell rates. The cumulative impact in the marketplace is that the overall entrants' share of the market has grown more rapidly than the CRTC or anyone else predicted, further driving prices down as Bell responded.

We can draw a number of conclusions from this situation. First, in a marketplace this dynamic, no one supplier can control prices; market share is changing hands too quickly. The notion of regulating competition of this kind is illusory. Any scheme to do so must be strictly transitional in nature and evolve in the direction of less room for government control and more for market forces.

Second, although the total market share held by competitive entrants is impressive, we may expect a shake-out among long distance suppliers over the next several months if our market follows the same path as the U.S. market.

Third, there is something inherently unstable in a telecommunications market such as our own, where long distance prices are roughly equal to those of the United States, while local-service prices are roughly one-half to two-thirds those in U.S. markets. This situation cannot endure.

There is one area where the experience of the last few years is encouraging, however. Customer choice determines market share and customers are making sure that our industry gets the message.

Pauline Tsang runs the PJ Travel Inc. agency in Toronto. In her spare time, she builds bridges.

Pauline isn't an engineer, but as a director of the Chinese Cultural Centre of Greater Toronto, she's dedicated to creating links between her community and others in the Toronto area.

In May 1994, Pauline tapped the resources of over a hundred volunteers and organized a telethon aimed at collecting funds to build a permanent facility for the cultural centre. With a donation from Bell, 28 phone lines were set up, enabling the telethon to receive more than 500 calls and raise nearly $600,000.

Pauline P. Y. Tsang,
president, PJ Travel Inc.,
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Bell's new billing system, introduced in February, was developed jointly by employees in Ontario, Québec and Bell Sygma. Suzanne Patry (left) *and Patricia A. Rouillard* (kneeling) *of Bell's implementation team look over the redesigned bill for residence customers with Bell Sygma colleague Carolyn Passmore* (right).

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There are some promising signs of a turnaround. By the end of 1994, more than 230,000 residence customers in Ontario and Québec who had left Bell for other long distance carriers chose to come back. Our research shows that their primary reason for choosing to do business with us again is the value we add to their telephone service.

It is true that some consumers define value in terms of cost: "more value for my money" usually translates as "the lowest price I can get." It's true that we want to be able to offer Bell's customers the best service at the lowest cost. Yet we will also provide the extras, the *added value* of being a Bell customer: customer care, commitment, customized billing – the factors that make a difference.

The value of convergence Customers today want their telecommunications services to provide them with the convenience of choice – in content, service and supplier. Convergence, the marriage of cable and telecommunications services, can deliver it.

But convenience can only exist in an open and competitive environment where *all* suppliers – telephone companies and cable companies – can compete on equal terms in *all* markets. As Bell and its Stentor partners argued during the CRTC's convergence hearings which began in March 1995, action must be taken quickly on a number of regulatory and legislative fronts in order to ensure the rapid development of Canada's information highway.

The Stentor members have already made an $8 billion commitment to the building of the information highway, but pursuing that commitment requires the removal of regulatory barriers. To invest in the future, we need to know we can offer those services that pay for our investments. That's why it's vitally important that convergence becomes a reality today, not in five or 10 years. This change is necessary to secure Canada's position in the global telecommunications market.

Transforming the company and the industry As Canada's largest communications company, Bell has a key role to play in defining how the industry will unfold in the years to come. The action we're taking to transform Bell into a leaner, more vibrant, company will help to transform the industry as a whole. We will contribute to an environment that encourages competition, fosters innovation, supports investment in new broad band and wireless technology and offers customers the best service in the world.

In order to accomplish this, we need the freedom to do what we do best. Canadian companies like Bell have long been at the forefront of the telecommunications revolution. The local and global competitive environment is now very different, however, and it will become increasingly difficult for Canada to maintain its communications leadership if we continue playing by the same old rules. To give our country the communications industry it deserves, we need an open, market-oriented regulatory and legislative framework.

This kind of framework, combined with our new corporate direction, will ensure that Bell continues to offer the leadership, innovation and investment security it has provided for more than a century. Bell will continue to add value for customers, investors and all other stakeholders in Canada's communications environment.

John T. McLennan

John T. McLennan
president and
chief executive officer

Unfair advantage?

We're **earning** *every* customer.

Slow moving? Hard to do business with?

We're **sharpening** *our* focus.

Behaving like a monopoly?

We're **thinking** *for* tomorrow.

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Rewriting the rules

"The rules that govern our industry are being rewritten every day, and it's clear that we can't afford to play by the old rules if we want to thrive in the new environment. It's no longer enough to be reliable, efficient, comfortable *– we have to show our customers that we also understand their needs, that we can act quickly to provide the right solution, and that we have a firm eye on the future. We're building on our strengths to create a new Bell Canada that will help define the telecommunications industry."*

John. T. McLennan

We're not taking anything for granted.

*Our new range of low-cost, long distance savings plans, such as the Bell **Real Plus™** plan and Bell **Advantage 800™** service, are designed to significantly boost our competitiveness in both the residence and business markets. We've taken steps to protect our market share and reward our customers' loyalty through our involvement in such initiatives as the GM VISA Card* program and our own Affinity program.*

What's more, we've supported these moves through stepped-up telemarketing efforts, more follow-up site visits by our sales force and award-winning advertising and marketing campaigns. The result? Thousands of customers are coming back to Bell. And thousands more are choosing to stay.

We're playing to win.

*GM VISA is a registered trademark of General Motors Corporation. TD Bank is a licensed user.

We're **earning** *every* customer.

Every day, we're taking steps to become a more agile and streamlined competitor.

We've set the stage by reshaping our operations. Our new market-based business unit structure, launched in January, translates into greater customer focus and more internal accountability.

We're also changing how work is done. For example, joint workplace reorganization projects involving our union partners, the CTEA and the CEP†, are constructively redefining the roles of all employees. These initiatives give participative decision-making a renewed focus, driving responsibility and accountability down into the organization in order to give employees more control over the work process. We're also working closely with more than 1,000 vendors to ensure that Bell acquires quality products and services at the lowest overall cost. By encouraging supplier excellence (by means of such programs as ISO 9000), we can ensure that we, in turn, deliver timely, on-demand products and services to our customers.*

We're changing the way we do business.

*Canadian Telephone Employees' Association
†Communications, Energy and Paperworkers Union of Canada

We're **sharpening** *our* focus.

As we rise to today's challenges, we're training our sights on tomorrow's growth opportunities.

In September 1994, a landmark CRTC decision changed the ground rules in progressive and promising ways. The decision opened up the local telephone market to competition and paved the way for phone companies to become active players in the emerging information-services market.

Our plans to capitalize on the unprecedented opportunities this market presents are already advanced.

In co-operation with our Stentor partners, we're investing $8 billion over 10 years in local network upgrades and application-development costs to build a national information highway. Technical trials with consumers and businesses in the medical and educational fields are currently underway, and the first video-on-demand services should be available as early as 1996.

At the same time, we're capitalizing on our network's capability to generate alternative sources of income and aggressively funding R&D to develop new products and services.

We're bringing the future to Canadians.

We're **thinking** *for* tomorrow.

Overview

Financial review*

Bell Canada's performance in 1994 was affected by continued market-share losses and pricing trends in the competitive business and by the increase in depreciation expense related to its investment in technology. As a result, Bell Canada's 1994 net income of $793 million was $78 million or 8.9% lower than it was in 1993. With the introduction of equal access, Bell Canada's long distance market-share loss at the end of 1994 was approximately 22%, compared with 14% at the end of 1993 and 9% at the end of 1992. Total operating revenues increased by $109 million or 1.4%. Growth in operating revenues was substantially stunted by long distance competition and was insufficient to fully absorb operating expense increases which have been incurred in order to serve and preserve Bell Canada's customer base in the face of this competition. Operating expenses increased by $215 million or 3.7% in 1994 due to higher depreciation expense. As a result, Bell Canada earned a regulated rate of return of 9.7%, well short of the 11-12% range authorized by the Canadian Radio-television and Telecommunications Commission (CRTC), and also below the 10.5% rate of return achieved in 1993.

Despite the lower earnings, operating cash flow has been increasing. This primarily reflects the non-cash nature of depreciation expense. Working capital requirements caused a reduction to 1994 cash flow from operations. The $498 million decrease in net capital expenditures brought free cash flow to its 1994 level of negative $136 million, which is nevertheless an improvement of $157 million over 1993 and $864 million when compared to the negative free cash flow level of $1,000 million in 1992. The net capital expenditure decrease was due to the substantial completion in 1993 of the switching equipment modernization program and to capital investment containment measures.

These same factors affected 1993. The decrease in net income in 1993 compared with 1992 was essentially due to intensified competition in the long distance market, relative weakness of the economy, higher marketing, sales and depreciation expenses and a higher effective income tax rate. These factors were partially offset by higher local and access revenues (mainly due to the growth in the number of network access services and to the increased penetration of optional services) and lower employee costs. Cash flow measures improved in 1993 compared to 1992, reflecting higher depreciation expense and lower net capital expenditures.

*Dollars in the tables of this financial review are in millions.

Financial highlights

Net income

1994	1993	Decrease	% Change
$793.4	**$871.1**	**$(77.7)**	**(8.9)**

1993	1992	Decrease	% Change
$871.1	$1,006.1	$(135.0)	(13.4)

Operating cash flow

1994	1993	Increase	% Change
$2,652.6	**$2,599.3**	**$53.3**	**2.1**

1993	1992	Increase	% Change
$2,599.3	$2,484.0	$115.3	4.6

Cash flow from operations

1994	1993	Decrease	% Change
$2,356.0	**$2,703.4**	**$(347.4)**	**(12.9)**

1993	1992	Increase	% Change
$2,703.4	$2,493.9	$209.5	8.4

Free cash flow

1994	1993	Increase	% Change
$(135.7)	**$(292.9)**	**$157.2**	**53.7**

1993	1992	Increase	% Change
$(292.9)	$(999.8)	$706.9	70.7

Net capital expenditures

1994	1993	Decrease	% Change
$1,639.9	**$2,138.4**	**$(498.5)**	**(23.3)**

1993	1992	Decrease	% Change
$2,138.4	$2,688.0	$(549.6)	(20.4)

Results of operations

The following sections provide a more detailed discussion of Bell Canada's results of operations and financial condition.

Operating revenues

Total operating revenues

1994	1993	Increase	% Change
$8,066.2	**$7,957.4**	**$108.8**	**1.4**

1993	1992	Increase	% Change
$7,957.4	$7,862.8	$94.6	1.2

Despite a moderate resurgence in the Canadian economy, operating revenues increased by only $109 million or 1.4% in 1994 after increasing by $95 million or 1.2% in 1993. For both years, growth in the number of low-margin network access services and stimulation of sales of optional services generated strong growth in local and access revenues, while market-share erosion and price competition caused a significant decrease in high-margin long distance revenues.

Local and access service revenues

1994	1993	Increase	% Change
$3,266.5	**$2,976.2**	**$290.3**	**9.8**

1993	1992	Increase	% Change
$2,976.2	$2,741.1	$235.1	8.6

Number of network access services* ***(thousands)***

	1994	1993	Increase	% Change
Business	**2,837.3**	**2,700.3**	**137.0**	**5.1**
Residence	**6,889.9**	**6,761.6**	**128.3**	**1.9**
	9,727.2	**9,461.9**	**265.3**	**2.8**

	1993	1992	Increase	% Change
Business	2,700.3	2,602.9	97.4	3.7
Residence	6,761.6	6,626.5	135.1	2.0
	9,461.9	9,229.4	232.5	2.5

**As at December 31*

Local and access service revenues are earned by connecting business and residence customers to Bell Canada's network and providing them with local-area service. Three factors contributed to year-over-year growth of $290 million in this category. Revenues generated by optional services increased by $105 million as a result of concentrated sales efforts. The emergence of high-margin optional services as a significant revenue source is an important benefit of the extensive investment Bell Canada has made over the last several years in the digitization of its switching equipment. The increase in the number and value of network access services† contributed $89 million.

†Network access services represent, approximately, the number of lines in service.

Finally, contributions from long distance competitors for accessing the local network increased by $37 million to a total of $94 million for 1994 (after reflecting a reduction of $10 million related to 1993 charges disputed by competitors). Such growth in contribution revenue reflects increased long distance market-share losses.

The increase in revenues in 1993 was primarily derived from the same sources: growth in the number and value of network access services, $77 million; higher penetration of optional services, $71 million; and higher contributions from long distance competitors, $37 million.

Toll and network service revenues

1994	1993	Decrease	% Change
$3,273.0	**$3,477.5**	**$(204.5)**	**(5.9)**
1993	1992	Decrease	% Change
$3,477.5	$3,706.4	$(228.9)	(6.2)

Toll and network service revenues are earned by carrying toll traffic and by providing network services such as private line and business data services. Bell Canada provides these services in its territory and, jointly with other telecommunications providers, throughout Canada and the world. A decline in basic toll services of $196 million or 6.8% in 1994 contributed to the overall decrease in revenues in this category. Network services decreased by $9 million or 1.6%. Basic toll and network services are subject to increasing competition, particularly the former.

The drop in basic toll revenue is due to market-share erosion and lower prices. As anticipated, the July 1, 1994 introduction of equal access exerted additional pressure on basic toll service revenues, primarily among residence customers. Bell Canada's long distance market-share loss went from approximately 14% at the beginning of 1994 to about 22% at the end of 1994. Market-share losses were mitigated, however, by competitive pricing measures implemented by Bell Canada to offer customers greater value and by increased marketing efforts.

Toll volumes, as measured in conversation minutes*, grew by 0.5% to 10,470 million in 1994, compared with 10,420 million in 1993. These volumes reflect market growth driven in part by traffic stimulation from rate cuts and offset by losses to competitors.

The decrease in revenues in 1993 compared with 1992 was mainly incurred in basic toll services, which accounted for $195 million. The decrease in basic toll revenues was mainly due to increased revenue losses to competitors, partly mitigated by the effect of measures implemented during 1992 and 1993 to restrict market-share losses, particularly among business customers, while economic growth continued at below-average rates.

Defined as minutes for calls originating in Bell Canada's territory for message toll services as well as minutes for calls terminating in Bell Canada's territory for **Advantage 800™ service.*

Terminal, directory advertising and other revenues – net

1994	1993	Increase	% Change
$1,526.7	**$1,503.7**	**$23.0**	**1.5**

1993	1992	Increase	% Change
$1,503.7	$1,415.3	$88.4	6.2

The main revenue streams in this category are competitive rental, sales and maintenance of terminal equipment, directory advertising and data processing and systems integration activities. The gain in revenues in 1994 is primarily due to increased data processing and systems integration activities.

The 1993 increase is also attributable to data processing and systems integration activities.

Operating expenses

Total operating expenses

1994	1993	Increase	% Change
$6,008.3	**$5,793.4**	**$214.9**	**3.7**

1993	1992	Increase	% Change
$5,793.4	$5,620.1	$173.3	3.1

Bell Canada's total operating expenses reflect the capital intensive nature of its business. The 1994 increase in total operating expenses is attributable to $225 million in higher depreciation expense. Sales and marketing expenses were also increased by $104 million, over 1993, in response to the competitive environment. These increases were counterbalanced by a number of cost reduction measures.

In dealing with intense long distance competition, Bell Canada is incurring additional operating expenses in strategic areas. Bell Canada will continue to invest in developing and offering new services, to maintain levels and quality of service and to promote existing and new services. As a result, sales and marketing will continue to see higher expense and employment levels which are commensurate with a competitive environment. Similarly, the investment that Bell Canada has made and will continue to make in modernizing and enhancing the capabilities of its plant will continue to result in higher depreciation expense.

The increase in operating expenses in 1993 was mainly due to increased depreciation and sales and marketing expenses, partially offset by decreases in salaries and wages and lower pension costs reflecting a reduction in the number of employees.

Depreciation expense

1994	1993	Increase	% Change
$1,901.3	**$1,676.0**	**$225.3**	**13.4**

1993	1992	Increase	% Change
$1,676.0	$1,581.6	$94.4	6.0

The increases in depreciation expense in 1994 stem from the ongoing need to invest in modern technology to meet customers' service demands as efficiently as possible and from increasingly rapid changes in the marketplace. Higher depreciable property, plant and equipment balances, especially in the high depreciation rate category of software, accounts for $173 million of the 1994 increase. In addition, lower net salvage proceeds than in 1993 contributed $82 million to the increase. Offsetting these increases was a $30 million reduction compared to 1993, which was generated by the CRTC ruling in June 1994 deferring $100 million of analogue switching equipment amortization from 1994 to the years 1995-1998.

Depreciation expense increased in 1993 by $166 million due to higher average depreciable plant and equipment balances (mostly in the switching equipment category and related software) and the net impact of changes in average service life of plant and equipment. However, this was partially offset by $72 million of higher salvage for retired analogue switching equipment.

Operating expenses

1994	1993	Decrease	% Change
$4,107.0	**$4,117.4**	**$(10.4)**	**(0.3)**

1993	1992	Increase	% Change
$4,117.4	$4,038.5	$78.9	2.0

Operating expenses decreased in 1994, despite the $104 million in higher sales and marketing expenses incurred in defence of long distance market share. This is essentially due to cost reduction programs, which remain an important priority. Among these was a termination incentive plan, under which some 2,200 employees left the company on January 31, 1994. The plan cost $133 million, of which $27 million was amortized in 1994 under a process mandated by the CRTC. Reduced work week programs, a salary freeze for managers, curtailment of overtime and restrictions on the use of contractors also contributed to the cost containment effort. As well, the investments Bell Canada has made in technology and in improving the management process in recent years have enabled it to introduce new services and to increase productivity while delivering high-quality service. Indicative of the productivity improvements is the fact that the number of equivalent employees has declined by 8.6% from 1992 to

1994, even as average network access service grew by 5.3% and toll volumes, despite competition, have been flat.

In accordance with a ruling issued by the CRTC, workforce reduction program costs were reduced from $61 million in 1993 to $27 million in 1994. Operating expenses, adjusted for these costs, amounted to $4,080 million in 1994, an increase of $24 million or 0.6% over 1993.

During both 1993 and 1992, Bell Canada employed voluntary termination incentive plans (VTIPs) as a means of reducing the number of employees. Operating expenses included a net of $61 million for the 1993 VTIP compared with $80 million for the 1992 VTIP. Excluding these amounts from both 1993 and 1992, operating expenses increased by $98 million or 2.5%.

Salaries and wages

	1994	**1993**	**Increase**	**% Change**
	$2,024.7	**$2,018.3***	**$6.4**	**0.3**
	1993	1992	Decrease	% Change
**Restated to exclude VTIP payments*	$2,018.3*	$2,080.6*	$(62.3)	(3.0)

Equivalent employees(1)

	1994	**1993**	**Decrease**	**% Change**
	48,496	**49,994**	**(1,498)**	**(3.0)**
	1993	1992	Decrease	% Change
(1)Equivalent full-time employees	49,994	53,048	(3,054)	(5.8)

Number of employees(2)

	1994	**1993**	**Increase**	**% Change**
	51,503	**50,982**	**521**	**1.0**
	1993	1992	Decrease	% Change
(2)As at December 31	50,982	52,897	(1,915)	(3.6)

Bell Canada's 1994 total payroll of $2,476 million (including amounts capitalized) was $63 million or 2.5% less than 1993. This reflects the reductions in the levels of employees and the introduction of reduced work week programs, and was partially offset by non-management wage increases coming into effect under existing labor contracts during 1993 and 1994. The employee reductions had a more pronounced effect on capital rather than current activities. As a result, the salaries and wages component of operating expenses increased by $6 million.

The number of equivalent full-time employees for 1994 was 48,496, representing a decrease of 1,498 or 3% compared with last year. The increase in the year-end number of employees in 1994 is due largely to staffing requirements for key business activities – sales and marketing, maintaining service quality and systems development, offset by

the 1994 termination incentive plan. Many of the additional employees have been hired in a lower salary classification, on a part-time or temporary basis. During 1994, some 300 employees who had been transferred to Stentor Resource Centre Inc.* in January 1993 returned to Bell Canada.

The decrease in salaries and wages in 1993 was mainly due to a reduction in the number of employees compared with 1992 and the implementation of remuneration constraint measures in the fourth quarter of 1993. In 1993, there were no across-the-board salary increases for any management personnel, including senior managers.

There were 49,994 equivalent full-time employees in 1993, a decrease of 3,054 or 5.8% compared with 1992. The reduction in the numbers of employees in 1993 was mainly due to the 1993 VTIP (1,200) and the transfer of 1,300 employees to Stentor in January 1993, partially offset by a decrease of 500 employees on leaves of absence, compared with December 31, 1992.

Interest charges

Interest charges

1994	1993	Increase	% Change
$635.6	**$633.9**	**$1.7**	**0.3**
1993	1992	Increase	% Change
$633.9	$592.7	$41.2	7.0

Interest charges increased in 1994 and 1993 as a result of higher average debt outstanding. The increases were mitigated by lower interest rates and the refinancing of long-term debt issues. The annualized interest savings resulting from the long-term debt refinancings in 1994 are approximately $6 million.

Capital expenditures

Net capital expenditures

1994	1993	Decrease	% Change
$1,639.9	**$2,138.4**	**$(498.5)**	**(23.3)**
1993	1992	Decrease	% Change
$2,138.4	$2,688.0	$(549.6)	(20.4)

Capital expenditures continue to represent one of the company's largest use of funds. The decrease in net capital expenditures of $498 million in 1994 was mainly due to significantly reduced spending on the switching equipment modernization program, which was substantially completed by the end of 1993, and to capital investment containment measures.

Net capital expenditures in 1993 decreased by $550 million, primarily due to the advancement of $356 million of capital expenditures to 1992 and to capital investment containment measures.

In 1995, net capital expenditures are expected to total about $1.8 billion.

**Stentor members' jointly held company involved in engineering, research and development and marketing activities of national or international scope.*

Liquidity and capital resources

The principal components of Bell Canada's cash flows include:

	1994	1993	1992
Net income	$ 793	$ 871	$ 1,006
Operating cash flow	$ 2,653	$ 2,599	$ 2,484
Cash flow from operations	$ 2,356	$ 2,703	$ 2,494
Net capital expenditures	(1,640)	(2,138)	(2,688)
Net investing	41	29	80
Dividends	(893)	(887)	(886)
Free cash flow	$ (136)	$ (293)	$ (1,000)
Financing provided by:			
Net borrowings	$ 83	$ 114	$ 644
Net preferred share issues	25	–	(23)
Common shares issues	–	175	300
Decrease in cash and other – net	28	4	79
	$ 136	$ 293	$ 1,000

Cash flow from operations in 1994 decreased primarily because of a decrease in accounts payable. This decrease in accounts payable was mainly due to a large increase in accounts payable at the end of 1993 resulting from the advancement of planned 1994 equipment purchases.

Cash flow from operations in 1993 increased primarily due to increases in deferred income taxes.

Bell Canada's external financing requirement in 1994 totalled $575 million, representing the sum of $136 million negative free cash flow, the repayment of $149 million of long-term debt which matured and the refinancing, prior to maturity, of $290 million of long-term debt.

Funds from external sources were obtained, in 1994, by the public issue of $450 million of debentures in Canada, the public issue of $150 million of debentures in Europe and the issuance of an additional $25 million of Class A Preferred Shares Series 12.

Total debt at the end of 1994 increased $149 million from 1993 due to net borrowings of $83 million and an increase in unamortized unrealized foreign-exchange losses.

Bell Canada's debt ratio was 43.1% and 42.4% as at December 31, 1994 and 1993, respectively. The increase in the debt ratio in 1994 reflects the increase in total debt of $149 million and the decrease of $100 million in retained earnings.

Bell Canada's commercial paper program serves to finance fluctuations in working capital and as bridge financing to the raising of long-term debt. As at December 31, 1994, the limit for the aggregate amount of commercial paper outstanding, in Canadian or U.S. dollars, was $1,200 million. On December 31, 1994, outstanding commercial paper was: $115 million in U.S. funds, with interest rate swap agreements in place which fix the cost of these borrowings for periods of nine to 22 months; and

$125 million in Canadian funds. The commercial paper program is supported by lines of credit, extended by several banks, totalling $250 million. The company had no borrowings outstanding under these lines of credit as at December 31, 1994.

In 1995, $165 million of Bell Canada's long-term debt and other long-term liabilities will mature. In addition, Bell Canada may take advantage of prevailing preferred share dividend rates by refinancing existing preferred shares that may be redeemed prior to maturity. On June 15, 1995, Bell Canada will have the option to redeem its $125 million, 7.50% Cumulative Redeemable Retractable Class A Preferred Shares Series 9.

Bell Canada expects that debenture warrants issued in December 1993, entitling the holders to purchase, on October 16, 1995, U.S. $200 million of 9.50% Debentures, Series ES, Due 2010, will be exercised, providing the funds required to redeem, on October 15, 1995, the Bell Canada U.S. $200 million, 13⅜% Debentures, Series DJ, Due 2010. Bell Canada has purchased an option to enter into a swap agreement to protect itself against the possibility that interest rates may rise above 9.50% in October 1995.

Bell Canada's cash requirements in 1995, including the repayment of long-term debt and for capital expenditures, are expected to be substantially met by internally generated funds. Any needs for long-term funds are expected to be met by the issuance of debt.

In March 1994, Moody's Investors Service (Moody's) lowered Bell Canada's rating on unsecured debt to A1 (single A high) from Aa3 (double A low). In announcing its decision, Moody's cited its expectation of further market-share loss to competitors and a less supportive regulatory climate as reasons for the downgrade. The Canadian Bond Rating Service, Dominion Bond Rating Service and Standard and Poor's Ratings Group had previously lowered Bell Canada's credit ratings during the last quarter of 1993. There have been no further changes to Bell Canada's credit ratings since then*. In September 1994, following the CRTC's Telecom Decision 94-19 (Review of Regulatory Framework), the Canadian Bond Rating Service confirmed Bell Canada's rating. Bell Canada's current credit ratings are shown in the table below.

	Unsecured debt	Commercial paper	Preferred shares	Outlook
Canadian Bond Rating Service	A+(low)	A–1+	P-1	Stable
Dominion Bond Rating Service**	AA(low)	R–1(mid)	Pfd-1	Stable
Moody's Investors Service	A1	Prime-1	n.r.	n.a.
Standard and Poor's Ratings Group	A+	n.r.	n.r.	Stable

n.r. = not rated
n.a. = not applicable

/ On March 8, 1995, Dominion Bond Rating Service put Bell Canada "Under Review" with developing implications.*

Outlook

Since 1992, Bell Canada's earnings have been trending downward while operating cash flow has been improving. During that period, strong growth in local and access service revenues has been substantially offset by long distance market share erosion and by price reductions caused by long distance competition. Nevertheless, Bell Canada continued to achieve strong productivity gains in its operations. Delivery of high quality service to customers and strengthened marketing and sales efforts remain top priority objectives of Bell Canada; achieving these objectives continues to be costly. As a result, Bell Canada has earned regulated rates of return of 10.5% for 1993 and 9.7% for 1994, below the 11-12% range authorized by the CRTC. Net income available to common shareholders was $230 million less, for those two years combined, than if earnings had reached the mid-point of the allowed range. At the same time, however, Bell Canada achieved substantial improvement in operating cash flow and free cash flow.

Increasing competitive inroads in the long distance market which affect both earnings and cash flow, together with continuing growth in depreciation expense, which affects earnings but not cash flow, will mean considerably more pressure on earnings in 1995 than in 1994, as already reflected in the substantial drop in earnings in the fourth quarter of 1994 over the third quarter of 1994.

Bell Canada's near-term earnings prospects must be addressed in the context of the major changes in its industry structure and regulatory regime over the next three years.

Implementation of the CRTC's recent Regulatory Framework Decision (Telecom Decision 94-19) will significantly change the face of the Canadian telecommunications industry. It brings the challenge of adapting the company to competition in all areas of its operations. It promises considerable opportunities: (i) increased flexibility for competitive operations; (ii) a move on January 1, 1998 to incentive-based price cap regulation for utility operations; and (iii) encouragement for the carriage on Bell Canada's network of a full range of existing and emerging services.

In December 1994, however, in response to appeals from competitors and from consumer advocacy groups, the Federal Cabinet directed the CRTC to reconsider by October 31, 1995 the rate rebalancing feature of its Regulatory Framework Decision and to delay the $2 per month local rate increases and the corresponding long distance rate decreases that had been prescribed for January 1995. Rate rebalancing is essentially revenue neutral. However, it reduces the required cross-subsidy from competitive long distance service, where Bell Canada's market share is declining, to unprofitable local service, where Bell Canada's obligation to provide service continues to grow. Also in December 1994, and once again in response to protests from competitors, the CRTC delayed that portion of the Regulatory Framework Decision which would have implemented an average per minute contribution charge, pending examination of a per

minute charge differentiated between peak and off-peak traffic. These issues will be the subject of CRTC proceedings in which Bell Canada will actively participate during 1995, along with those proceedings already announced to implement the Regulatory Framework Decision and to determine the appropriate rate of return range and capital structure for utility operations.

These reviews of key aspects of the Regulatory Framework Decision create an uncertain regulatory and business environment for the year ahead.

Bell Canada recognizes that it must address its financial situation, and the major industry changes it is facing, through fundamental changes. A three-year business plan is being developed to effect these changes.

In November 1994, Bell Canada announced the formation of four new business units and the appointment of their new chief executives. These units will be fully accountable for their own results and managed with a clear focus on the customer. Complementing this reorganization will be a significant re-engineering of business processes in order to refocus resources and reduce costs.

During the coming months, Bell Canada will be announcing the specific measures it will be taking, based on the three-year business plan being developed with the new business units, to reduce costs and to improve revenues in order to achieve its financial objectives by the end of the plan. These measures will include work force reductions and significant business transformation plans. Bell Canada will also be addressing the technological requirements to support a state-of-the-art telecommunications network. Finally, these measures will include a review of Bell Canada's rate structure, including the need to adapt the local rate structure to the competitive environment that will prevail in the coming years. These measures, together with acceptable regulatory determinations, are necessary to permit Bell Canada to achieve satisfactory returns.

Management's responsibility for financial statements

The accompanying consolidated financial statements of Bell Canada and the information in this annual report are the responsibility of management and have been approved by the board of directors.

The financial statements have been prepared by management in conformity with Canadian generally accepted accounting principles. The financial statements include some amounts that are based on best estimates and judgements. Financial information used elsewhere in the annual report is consistent with that in the financial statements.

Management, in furtherance of the integrity and objectivity of the financial statements, has developed and maintains a system of internal controls and supports an extensive program of internal audits. Management believes the internal controls provide assurance that financial records are reliable and form a proper basis for preparation of financial statements and that assets are properly accounted for and safeguarded. The internal control process includes management's communication to employees of policies which govern ethical business conduct.

The board of directors carries out its responsibility for the financial statements in this annual report principally through its audit committee, consisting of five members, four of whom are outside directors. The audit committee reviews Bell Canada's annual consolidated financial statements and recommends their approval to the board of directors. The internal and the shareholders' auditors have free and independent access to the audit committee.

These financial statements have been audited by the shareholders' auditors, Deloitte & Touche, Chartered Accountants, and their report follows.

R.A. Hamilton Harding, F.C.A.
Group vice-president – strategic issues

Montréal (Québec) Canada
February 10, 1995

To the shareholders of Bell Canada

Auditors' report

We have audited the consolidated balance sheets of Bell Canada and its subsidiaries as at December 31, 1994 and 1993 and the consolidated statements of income, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1994. These consolidated financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 1994 and 1993 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1994 in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche

Montréal (Québec) Canada
February 10, 1995

Deloitte & Touche
Chartered Accountants

Consolidated financial statements

Consolidated statement of income

For the years ended December 31	1994	1993	1992
		(millions of dollars)	
Operating revenues			
Local and access services	$ 3,266.5	$ 2,976.2	$ 2,741.1
Toll and network services	3,273.0	3,477.5	3,706.4
Terminal, directory advertising and other – net	1,526.7	1,503.7	1,415.3
Total operating revenues	8,066.2	7,957.4	7,862.8
Operating expenses			
Depreciation expense	1,901.3	1,676.0	1,581.6
Operating expenses	4,107.0	4,117.4	4,038.5
Total operating expenses	6,008.3	5,793.4	5,620.1
Net operating revenues	2,057.9	2,164.0	2,242.7
Other expenses	49.5	29.7	6.4
Interest charges	635.6	633.9	592.7
Income before income taxes	1,372.8	1,500.4	1,643.6
Income taxes (note 2)	579.4	629.3	637.5
Net income	793.4	871.1	1,006.1
Dividends on preferred shares	72.1	75.3	75.4
Net income applicable to common shares	$ 721.3	$ 795.8	$ 930.7

Consolidated statement of retained earnings

For the years ended December 31	1994	1993	1992
		(millions of dollars)	
Balance at beginning of year	**$ 2,602.3**	$ 2,618.1	$ 2,498.5
Net income	**793.4**	871.1	1,006.1
	3,395.7	3,489.2	3,504.6
Deduct:			
Dividends			
Preferred shares	**72.1**	75.3	75.4
Common shares	**821.0**	811.6	811.0
	893.1	886.9	886.4
Expenses of issues of share capital	**0.2**	–	0.1
	893.3	886.9	886.5
Balance at end of year	**$ 2,502.4**	$ 2,602.3	$ 2,618.1

Consolidated balance sheet

Assets

As at December 31	1994	1993
	(millions of dollars)	
Current assets		
Accounts receivable (notes 3 and 4)	**$ 848.5**	$ 795.7
Prepaid expenses	**134.1**	137.3
Other	**110.0**	87.8
	1,092.6	1,020.8
Property, plant and equipment – at cost (note 5)		
Buildings, plant and equipment (note 6)	**26,741.9**	25,595.3
Less: accumulated depreciation	**10,205.9**	8,928.9
	16,536.0	16,666.4
Land	**117.9**	117.4
Plant under construction	**339.4**	320.8
Material and supplies	**92.4**	246.4
	17,085.7	17,351.0
Other assets		
Long-term receivables (notes 3 and 4)	**59.6**	86.5
Investments in associated companies – at equity (note 1)	**51.1**	54.0
Deferred charges (note 7)	**613.9**	432.2
	724.6	572.7
Total assets	**$ 18,902.9**	$ 18,944.5

On behalf of the board of directors:

W. Chippindale

W. Chippindale, *director*

R.F. Bennett, *director*

Consolidated balance sheet

Liabilities and shareholders' equity

As at December 31	1994	1993
	(millions of dollars)	
Current liabilities		
Cheques outstanding in excess of bank balances (net of temporary cash investments at cost – approximates market)	$ 79.1	$ 53.2
Accounts payable (note 4)	772.4	984.7
Advance billing and payments	211.0	170.7
Dividends payable – including $205.2 ($205.2 – 1993) due to parent company	209.6	209.9
Taxes accrued	67.1	56.6
Interest accrued	151.4	154.4
Debt due within one year (note 8)	454.7	526.0
	1,945.3	2,155.5
Long-term debt (note 9)	6,134.7	5,914.3
Deferred credits		
Income taxes (note 2)	2,014.6	2,032.9
Other	120.3	78.9
	2,134.9	2,111.8
Preferred shares (note 10)		
Non-convertible (redeemable)	985.0	960.0
Common shareholders' equity		
Stated capital of common shares (note 11)	4,167.1	4,167.1
Premium on share capital (note 11)	1,033.5	1,033.5
Retained earnings	2,502.4	2,602.3
	7,703.0	7,802.9
Total liabilities and shareholders' equity	**$ 18,902.9**	$ 18,944.5

Consolidated statement of changes in financial position

Cash provided from (used for)

		(millions of dollars)	
For the years ended December 31	**1994**	1993	1992
Operating activities			
Net income	**$ 793.4**	$ 871.1	$ 1,006.1
Items not affecting cash			
Depreciation	**1,901.3**	1,676.0	1,581.6
Deferred income taxes	**(45.4)**	134.3	(14.5)
Allowance for funds used during construction	**(18.7)**	(23.6)	(41.7)
Miscellaneous	**22.0**	(58.5)	(47.5)
Operating cash flow	**2,652.6**	2,599.3	2,484.0
(Increase) decrease in working capital (note 12)	**(236.6)**	91.0	57.0
Other items	**(60.0)**	13.1	(47.1)
Cash flow from operations	**2,356.0**	2,703.4	2,493.9
Investing activities			
Capital expenditures – net	**(1,639.9)**	(2,138.4)	(2,688.0)
Decrease in long-term receivables	**26.8**	38.7	57.0
Reduction in investments in associated companies	**–**	–	52.1
Miscellaneous	**14.5**	(9.7)	(28.4)
	(1,598.6)	(2,109.4)	(2,607.3)
Dividends			
On preferred shares	**(72.1)**	(75.3)	(75.4)
On common shares	**(821.0)**	(811.6)	(811.0)
	(893.1)	(886.9)	(886.4)
Free cash flow	**(135.7)**	(292.9)	(999.8)
Financing activities			
(Decrease) increase in notes payable and bank advances	**(93.0)**	(170.6)	453.4
Proceeds from long-term debt	**615.2**	976.4	1,014.8
Repayment of long-term debt	**(439.2)**	(692.3)	(824.1)
Issue of preferred shares	**25.0**	–	–
Redemption of preferred shares	**–**	–	(23.5)
Issue of common shares	**–**	175.0	300.0
Miscellaneous	**1.8**	33.9	(9.8)
	109.8	322.4	910.8
Cash position			
(Decrease) increase during the year	**(25.9)**	29.5	(89.0)
At beginning of year	**(53.2)**	(82.7)	6.3
At end of year[1]	**$ (79.1)**	$ (53.2)	$ (82.7)

[1] *Represented by:*

For the years ended December 31	(millions of dollars) 1994	1993	1992
Temporary cash investments	**$ 101.7**	$ 52.8	$ –
Cheques outstanding in excess of bank balances	**(180.8)**	(106.0)	(82.7)
	$ (79.1)	$ (53.2)	$ (82.7)

Notes to consolidated financial statements

1. Accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and unless otherwise indicated all amounts are in Canadian dollars. These statements conform in all material respects with international accounting standards. Certain previously reported amounts have been reclassified to conform with the current presentation.

With respect to the consolidated financial statements of Bell Canada, the important differences between Canadian and United States generally accepted accounting principles are described and reconciled in note 17.

Bell Canada operates in a single industry segment which is telecommunications services. These services are provided in the provinces of Ontario and Québec. Bell Canada is subject to regulation, including examination of its accounting practices, by the Canadian Radio-television and Telecommunications Commission (CRTC). As used herein, "Bell Canada" means Bell Canada, its subsidiaries and the directory business division of Tele-Direct (Publications) Inc.

Consolidation

The consolidated financial statements include the accounts of all majority-owned subsidiaries, either direct or indirect, and those of the directory business division, since it would be misleading to exclude such results. The principal subsidiary company of Bell Canada, at December 31, 1994, was Bell Sygma Inc.

Tele-Direct (Publications) Inc. (TD Publications), which was a wholly owned subsidiary prior to 1989, is now a majority-owned subsidiary of BCE Inc. (BCE), the parent company of Bell Canada. Although Bell Canada does not have voting control, it retains exclusive control over and the right to earnings of the directory business division; further, it is BCE's policy that the establishment and operation of the other business activities of TD Publications will not affect Bell Canada unfavorably.

The principal associated company (defined as 20% to 50% owned) of Bell Canada at December 31, 1994, was Bell-Northern Research Ltd (BNR). In its capacity as a member of the Stentor alliance, Bell Canada has a significant non-controlling position in Stentor Resource Centre Inc. (SRCI). Investments in associated companies are accounted for by the equity method.

Depreciation

Depreciation is computed on the straight-line method using rates based on the estimated useful lives of the assets, which rates are reviewed by the CRTC. Switching machine and certain other administrative application software is included in plant and equipment and is amortized on a straight-line basis over a five-year period. When depreciable telecommunications property is retired, the amount at which it has been carried is charged to accumulated depreciation.

Allowance for funds used during construction

Bell Canada's regulator requires it to provide for a return on total capital invested in new telephone plant while under construction. An allowance for funds used during construction is included as an item of income during the construction period and also as an addition to the cost of the plant constructed. Such income is currently not realized in cash but will be realized over the service life of the plant.

Research and development

All research and development costs incurred are charged to income and are reduced by related tax incentives. Research and development expenses (before deductions for tax incentives) for the year 1994 were $102.7 million ($128.3 – 1993, $126.6 – 1992).

Translation of foreign currencies

Current assets (excluding prepaid expenses), current liabilities and long-term monetary assets and liabilities are translated at the rates in effect at the balance sheet date, whereas other assets and other liabilities are translated at rates prevailing at the respective transaction dates. Monetary items hedged against foreign-exchange risks are converted into Canadian dollars at the rate of exchange established under the conditions of the relevant hedging agreements. Revenues and expenses are translated at average rates prevailing during the year, except for depreciation and amortization which are translated at exchange rates prevailing when the related assets were acquired. Currency gains and losses are reflected in net income of the year except for unrealized foreign currency gains and losses on long-term monetary assets and liabilities, which are reported as deferred items and amortized over the remaining lives of the related items on a straight-line basis.

Leases

Where Bell Canada is the lessor, rental revenue from operating leases is recognized as service is rendered to customers. For leases which qualify as sales-type leases, the sales revenue is recognized at the inception of the lease at the equivalent tariff rate.

Where Bell Canada is the lessee, assets recorded under capital leases are amortized on a straight-line method using rates based on the estimated useful life of the asset or based on the lease term, as appropriate. Obligations recorded under capital leases are reduced by rental payments net of imputed interest.

Income taxes

As directed by the CRTC in July 1989, Bell Canada uses a modified liability method of income tax allocation. The provision for income taxes is based on income as reported on the income statement regardless of when such income is subject to tax. The difference between taxes payable and taxes accrued is accounted for under *Deferred credits – income taxes*. In addition, the accumulated *Deferred credits – income taxes* are adjusted to reflect changes in tax rates in the year in which these changes occur. A longer amortization period could be considered by the CRTC if any adjustment to the *Deferred credits – income taxes* has a significant impact on Bell Canada's rate of return on equity.

In July 1989, the CRTC directed that the *Deferred credits – income taxes* of Bell Canada be adjusted to reflect the reduced combined statutory income tax rate in effect on January 1, 1989 and that the resulting adjustment ($290 million) be amortized as a reduction of income tax expense over a five-year period commencing in October 1989. This amount was fully amortized in September 1994.

Pensions and other post-retirement benefits

Bell Canada maintains defined benefit pension plans which cover substantially all of its employees. The plans provide pensions to retired employees based on years of service and average earnings at retirement. These plans are non-contributory, with Bell Canada being responsible for contributions to adequately fund the plans.

Pension costs are determined using the projected benefit obligation method prorated over years of service and based on management's best estimates. A valuation is performed each year to determine the actuarial present value of the accrued pension benefits. Pension plan assets are valued at market-related value, whereby gains and losses are recognized progressively over five years. Adjustments arising from plan amendments, changes in assumptions, experience gains and losses and the transition adjustment (the excess of plan assets over plan obligations) as at January 1, 1987, when the present accounting standards became effective, are amortized and recognized over the expected average remaining service life of the plan participants, which recognition may be accelerated upon significant reduction in remaining service life.

Bell Canada also provides certain health care and life insurance benefits for employees on retirement. The cost of these benefits, excluding life insurance, is recorded in operating expenses as incurred. Life insurance for retired employees is largely funded during their working lives.

2. Income taxes

A reconciliation of the combined statutory federal and provincial income tax rate in Canada to the effective income tax rate is as follows:

Year ended December 31	**1994**	1993	1992
Combined statutory income tax rate	**41.9%**	42.0%	41.7%
(i) Deferred tax adjustment arising from an increase in Québec income tax rate	**–**	1.9	–
(ii) Tax on large corporations	**1.9**	1.8	1.4
(iii) Amortization of deferred tax adjustment	**(3.1)**	(3.9)	(3.5)
(iv) Other	**1.5**	0.1	(0.8)
Effective income tax rate	**42.2%**	41.9%	38.8%

Details of Bell Canada's income taxes are as follows:

Year ended December 31	1994	1993	1992
	(millions of dollars)		
Income taxes			
Current	$ 623.9	$ 487.2	$ 617.1
Deferred (net of amortized deferred tax adjustment of $43.5 ($58.0 – 1993 and $58.0 – 1992)	(44.5)	142.1	20.4
Total income taxes	$ 579.4	$ 629.3	$ 637.5

The deferred income taxes result principally from deductions for tax purposes, in respect of buildings, plant and equipment, in excess of amounts charged to operations.

3. Lease receivables

The net receivables from equipment contracts considered as sales-type leases comprise both long-term receivables of $58.0 million ($86.5 – 1993) and current receivables of $45.4 million ($67.2 – 1993) included in current assets.

At December 31, 1994, the amounts receivable under sales-type leases by Bell Canada were as follows:

	(millions of dollars)
1995	$ 56.8
1996	34.6
1997	17.5
1998	8.2
1999	3.0
Thereafter	0.9
	121.0
Less: unearned income	17.6
Total net receivables	$ 103.4

In 1994, operating revenues include $15.5 million of finance income related to these contracts ($23.8 – 1993, $33.9 – 1992).

4. Accounts receivable and accounts payable

At December 31, 1994, accounts receivable are principally from customers and include $80.1 million ($63.1 – 1993) from parent, affiliated and associated companies.

Bell Canada's receivables, principally from a large number of customers in Ontario and Québec, are subject to terms and conditions approved by its regulator. Due to the essential nature of the telecommunications services offered by Bell Canada, credit risk associated with current and long-term receivables tends to be minimal as a percentage of total revenues.

Under an agreement dated December 21, 1990, Bell Canada sold, with minimal recourse, accounts receivable for aggregate cash proceeds of $550 million. Pursuant to the agreement, the purchaser will use the proceeds of collection to purchase further receivables from Bell Canada until the expiration of the agreement on December 21, 1995. The agreement may be terminated at an earlier date by either party. Bell Canada is obligated to pay monthly the purchaser's cost of funds, plus predefined fees.

Accounts payable include $145.5 million ($324.7 – 1993) due to affiliated and associated companies.

5. Lease obligations

Property, plant and equipment includes property recorded under capital leases net of accumulated depreciation in the amount of $11.9 million as at December 31, 1994 ($19.0 – 1993). The future minimum lease payments under capital leases net of estimated executory costs and imputed interest, as at December 31, 1994, are $15.7 million.

The future minimum lease payments under operating leases that have initial non-cancellable lease terms in excess of one year as at December 31, 1994, amount to $278.2 million.

Rental expense applicable to all operating leases for the year 1994 was $153.8 million ($153.6 – 1993, $157.9 – 1992).

6. Buildings, plant and equipment

(millions of dollars)

	Cost		Accumulated depreciation	
As at December 31	**1994**	1993	**1994**	1993
Buildings	**$ 2,330.3**	$ 2,210.8	**$ 832.9**	$ 758.0
Plant	**22,025.7**	21,233.8	**8,164.4**	7,131.8
Equipment	**2,385.9**	2,150.7	**1,208.6**	1,039.1
	$ 26,741.9	$ 25,595.3	**$ 10,205.9**	$ 8,928.9

Depreciation rates	**1994**	1993
Buildings	**4.53%**	4.94%
Plant	**6.97%**	6.54%
Equipment	**12.83%**	10.34%

Retirements charged to accumulated depreciation amounted to $607.2 million in 1994 and $1,267.4 million in 1993.

7. Deferred charges

Bell Canada's deferred charges are as follows:

As at December 31	(millions of dollars) 1994	1993
Unrealized foreign currency losses, less amortization	$ 194.0	$ 145.0
Prepaid pension costs	144.1	126.9
Unamortized voluntary termination incentive plan costs	106.4	–
Deferred interconnection costs	75.6	48.4
Other	93.8	111.9
Total	$ 613.9	$ 432.2

8. Debt due within one year

Bell Canada's debt due within one year consists of the following:

As at December 31	(millions of dollars) 1994	1993
Long-term debt – current portion	$ 163.9	$ 169.2
Notes payable (including $3.7 due to parent and affiliated companies, $4.2 – 1993)	287.8	352.8
Bank advances	3.0	4.0
Total	$ 454.7	$ 526.0

9. Long-term debt

Bell Canada's long-term debt consists of the following:

Total outstanding at December 31					(millions of dollars) 1994	1993
Debentures and notes[(a)]						
Rate of interest	5.62-8⅞%	9-9⅞%	10-10⅞%	11-13⅞%		
Due						
1994	$ –	$ –	$ –	$ –	$ –	$ 112.1
1995	–	–	–	125.0	125.0	125.0
1996	–	250.0	–	–	250.0	250.0
1997	175.0	–	–	–	175.0	175.0
1998	378.7	–	125.0	–	503.7	490.8
1999	–	440.4	150.0	–	590.4	150.0
2000-2009	761.1	775.0	750.0	550.0	2,836.1	2,804.6
2010-2054	–	400.0	800.0	530.5	1,730.5	1,564.8
	$ 1,314.8	$ 1,865.4	$ 1,825.0	$ 1,205.5	6,210.7	5,672.3
First mortgage bonds[(b)]					–	282.1
Other[(c)]					87.9	129.1
Sub-total					6,298.6	6,083.5
Less: due within one year					163.9	169.2
Total					$ 6,134.7	$ 5,914.3

(a) Debentures and notes include U.S. $400 million maturing in 2006 and 2010; 300 million Swiss francs, due 2003, and Canadian $380 million, due 1998 and 1999, swapped into U.S. dollar obligations as to principal and interest obligations. In December 1993, Bell Canada sold 2,000 debenture warrants for a net aggregate amount of $48 million (U.S. $35 million), included in *Deferred credits – other*. The warrants entitle the holders to purchase U.S. $200 million of 9.50% Debentures, Series ES, on October 16, 1995. If the warrants are exercised, the net proceeds from the purchase of the Series ES Debentures, together with funds from other sources, are expected to be used to redeem Bell Canada 13⅜% Debentures, Series DJ, Due 2010, on October 15, 1995.

(b) During 1994, all outstanding first mortgage bonds were redeemed prior to maturity. The first mortgage bonds of Bell Canada were secured by a first mortgage and a floating charge.

(c) "Other" includes $15.7 million in obligations under capital leases and $50.5 million (U.S. $36.0 million) under a letter of credit and indemnity to be drawn down over a period of five years to 1997.

At December 31, 1994, the estimated amounts of long-term debt payable by Bell Canada in the years 1995 to 1999 are $163.9, $285.5, $176.0, $504.8 and $591.6 million, respectively.

10. Preferred shares

Authorized

The articles of incorporation of Bell Canada provide for an unlimited number of Class A preferred shares. The articles authorize the directors of Bell Canada to issue such shares in one or more series and to fix the number of shares of each series, and the conditions attaching thereto, prior to their issue.

(dollars in millions)

Outstanding as at December 31	1994		1993	
	Number of shares	**Stated capital**	Number of shares	Stated capital
Non-convertible Class A preferred shares(a)				
Series 8 – retractable(b)	**6,000,000**	**$ 150.0**	6,000,000	$ 150.0
Series 9 – retractable(c)	**5,000,000**	**125.0**	5,000,000	125.0
Series 10 – retractable(d)	**4,000,000**	**100.0**	4,000,000	100.0
Series 11(e)	**300**	**150.0**	300	150.0
Series 12(e)	**400**	**200.0**	350	175.0
Series 13(e)	**250**	**125.0**	250	125.0
Series 14(e)	**270**	**135.0**	270	135.0
Aggregate stated capital of outstanding preferred shares		**$ 985.0**		$ 960.0

(a) All preferred shares are non-voting and redeemable at Bell Canada's option.

The holders of Cumulative Redeemable Retractable Class A Preferred Shares Series 8 and 9 are entitled to fixed cumulative annual dividends at the rate of $1.94 and $1.875 per share, respectively.

The holders of the Cumulative Redeemable Retractable Reset Class A Preferred Shares Series 10 were entitled to fixed cumulative annual dividends of $1.86 per share until August 15, 1994; the dividend rate could be reset thereafter pursuant to the terms and conditions of this issue, which rate at no time would be less than $1.86 per share. On August 15, 1994, the dividend rate was set at $1.86 per share.

The holders of Perpetual Cumulative Reset Redeemable Class A Preferred Shares Series 11, 12, 13 and 14 are entitled to an annual cumulative dividend rate of 5.08%, 6.37%, 7.94% and 7.70% of the stated capital of such shares, respectively, until March 30, 1999, October 30, 1997, September 30, 1995 and September 30, 1996, respectively, at which time the dividend rate will be reset. Thereafter, the dividend rate of the series 11, 12, 13 and 14 preferred shares may be reset from time to time pursuant to the terms and conditions of each series.

(b) The series 8 preferred shares are redeemable on December 1, 1996, at $26 per share to December 1, 1997, and at reducing amounts thereafter to $25 after December 1, 2000. The series 8 preferred shares are retractable at the option of the holders on December 1, 2001, at a price of $25 per share.

(c) The series 9 preferred shares are redeemable on June 15, 1995, at $26 per share to June 15, 1996, and at reducing amounts thereafter to $25 after June 15, 1999. The series 9 preferred shares are retractable at the option of the holders on June 15, 1999, at a price of $25 per share.

(d) The series 10 preferred shares are not redeemable prior to August 15, 2000. However, Bell Canada had the right to redeem all the series 10 preferred shares at $25 per share in the event that on August 15, 1994, the annual dividend rate, as then reset would have been greater than $2.10 per share (or 8.40% of the stated capital of such shares). Since the dividend of series 10 preferred shares was reset to an annual cumulative dividend of 7.44%, effective August 15, 1994, the series 10 preferred shares were not redeemed. On or after August 15, 2000, the series 10 preferred shares are redeemable at $25 per share. The series 10 preferred shares are retractable at the option of the holders on August 15, 2000, at a price of $25 per share.

(e) The series 11, 12, 13 and 14 preferred shares are redeemable at $500,000 per share any time on or after March 30, 1999, October 31, 1997, September 30, 1995 and September 30, 1996, respectively. The series 11, 12, 13 and 14 preferred shares are not retractable at the option of the holders.

During the three-year period ended December 31, 1994, Bell Canada issued, for $25 million cash, 50 additional Class A Preferred Shares Series 12 on October 31, 1994.

11. Common shares

Authorized

The articles of incorporation of Bell Canada provide for an unlimited number of common shares.

		(dollars in millions)		
Outstanding as at December 31		**1994**		1993
	Number of shares	**Stated capital**	Number of shares	Stated capital
	293,624,031	**$ 4,167.1**	293,624,031	$ 4,167.1

All outstanding Bell Canada common shares are owned, directly or indirectly, by its parent company, BCE. The number of common shares issued during the last three years is as follows:

	1994	1993	1992
For cash	–	6,632,417	11,347,341

Premium on share capital represents the consideration received in excess of the then par value of common shares issued before Bell Canada was continued under the Canada Business Corporations Act on April 21, 1982.

12. Changes in working capital

Cash provided from (used for) changes in other working capital components:

Year ended December 31	1994	1993	1992
		(millions of dollars)	
(Increase) decrease in current assets:			
Accounts receivable	$ (52.8)	$ (31.9)	$ (84.1)
Proceeds from the sale of accounts receivable (note 4)	–	100.0	100.0
Prepaid expenses	3.2	(9.7)	(15.0)
Other	(22.2)	(18.5)	(5.7)
Increase (decrease) in current liabilities:			
Accounts payable	(212.3)	0.7	76.7
Advance billing and payments	40.3	13.4	18.0
Dividends payable	(0.3)	4.7	12.5
Taxes accrued	10.5	20.0	(40.2)
Interest accrued	(3.0)	12.3	(5.2)
(Increase) decrease in other working capital components	$ (236.6)	$ 91.0	$ 57.0

13. Pensions

The following table presents the financial position of Bell Canada's pension plans:

	1994	1993
	(millions of dollars)	
Pension plan assets at market related value	$ 6,937.1	$ 7,004.0
Actuarial present value of accrued pension benefits as at December 31	5,926.9	5,765.4
Surplus	$ 1,010.2	$ 1,238.6

	1994	1993	1992
Total pension expense for the year	$ (1.8)	$ (50.1)	$ (53.2)

14. Unused bank lines of credit

At December 31, 1994, Bell Canada had unused bank lines of credit, generally available at the banks' prime rate of interest or less, totalling $344.7 million, for general corporate purposes and to support commercial paper borrowings. All lines of credit are binding on the financial institutions.

15. Related-party transactions

During the year, Bell Canada purchased equipment and related supplies from Northern Telecom Limited (NT) totalling $585.0 million ($977.8 – 1993, $1,526.8 – 1992), incurred $278.1 million ($302.8 – 1993) for services from SRCI and earned $111.9 million ($77.6 – 1993) in revenues from SRCI. In 1992, Bell Canada expensed $28.4 million on research and development from BNR. Bell Canada also entered into research and development arrangements with NT. NT and BNR are subsidiaries of BCE, the parent company of Bell Canada.

16. Quarterly financial data

Summarized consolidated quarterly financial data are as follows:

	(millions of dollars)			
Three months ended	March 31	June 30	Sept. 30	Dec. 31
1994				
Total operating revenues	**$ 1,992.1**	**$ 2,008.7**	**$ 2,058.7**	**$ 2,006.7**
Net operating revenues	**520.8**	**525.5**	**546.1**	**465.5**
Net income	**211.6**	**203.5**	**212.5**	**165.8**
Net income applicable to common shares	**192.8**	**185.6**	**194.6**	**148.3**
Operating cash flow	**665.9**	**654.4**	**683.9**	**648.4**
Cash flow from operations	**223.7**	**564.0**	**760.3**	**808.0**
Free cash flow	**(272.4)**	**(88.4)**	**113.5**	**111.6**
1993				
Total operating revenues	$ 1,968.9	$ 1,962.9	$ 1,991.1	$ 2,034.5
Net operating revenues	440.6	504.4	583.0	636.0
Net income	167.2	197.9	220.1	285.9
Net income applicable to common shares	148.4	179.1	201.2	267.1
Operating cash flow	557.0	641.0	691.3	710.0
Cash flow from operations	424.3	468.2	775.1	1,035.8
Free cash flow	(279.4)	(159.8)	86.4	59.9

17. Reconciliation of results

Reported in accordance with GAAP in Canada with U.S. GAAP

The accompanying financial statements have been prepared in accordance with Canadian GAAP. The important differences between Canadian and U.S. GAAP affecting the consolidated financial statements of Bell Canada are reconciled as follows:

	(millions of dollars)			
Three months ended	March 31	June 30	Sept. 30	Dec. 31
1994				
Net income – Canadian GAAP	**$ 211.6**	**$ 203.5**	**$ 212.5**	**$ 165.8**
Adjustments				
Foreign exchange[a]	**(36.5)**	**6.5**	**33.3**	**(37.2)**
Post-retirement benefit costs[b]	**(9.9)**	**(9.8)**	**(9.9)**	**(9.8)**
Post-employment benefit costs[c]	**(57.9)**	**(2.5)**	**(2.5)**	**(2.5)**
Net income – U.S. GAAP	**$ 107.3**	**$ 197.7**	**$ 233.4**	**$ 116.3**
1993				
Net income – Canadian GAAP	$ 167.2	$ 197.9	$ 220.1	$ 285.9
Adjustments				
Foreign exchange[a]	11.6	(14.9)	(33.5)	12.1
Post-retirement benefit costs[b]	(11.6)	(11.6)	(11.6)	(11.5)
Net income – U.S. GAAP	$ 167.2	$ 171.4	$ 175.0	$ 286.5

	(millions of dollars)		
Year ended December 31	**1994**	1993	1992
Net income – Canadian GAAP	$ 793.4	$ 871.1	$ 1,006.1
Adjustments			
Foreign exchange[(a)]	(33.9)	(24.7)	(70.7)
Post-retirement benefit costs[(b)]	(39.4)	(46.3)	–
Post-employment benefit costs[(c)]	(65.4)	–	–
Net income – U.S. GAAP	$ 654.7	$ 800.1	$ 935.4

(a) The difference arises from the method of accounting for unrealized foreign currency gains and losses on long-term debt, under Canadian GAAP as opposed to under U.S. Financial Accounting Standards Board's Statement No. 52 – Foreign Currency Translation.

(b) Under the U.S. Financial Accounting Standards Board's Statement No. 106 – Employers' Accounting for Post-retirement Benefits Other Than Pensions, effective for fiscal years beginning after December 15, 1992, the expected costs of health care and other post-retirement benefits are accrued during the years employees provide service to the employer. For U.S. GAAP reporting purposes, Bell Canada's accumulated transition obligation, estimated at $399 million (net of the fair value of plan assets of $221 million and applicable income taxes of $289 million) as at January 1, 1993, is amortized over a 20-year period starting in 1993, as permitted by the above Statement. In the absence of a formal similar Canadian pronouncement on the subject, these costs are charged to income when paid, under Canadian GAAP. If a similar Canadian standard were adopted, it is expected that in setting Bell Canada's rates for telecommunications services, the regulator would take such a standard, including any transition provisions, into account.

(c) Under the U.S. Financial Accounting Standards Board's Statement No. 112 – Employers' Accounting for Post-employment Benefits, effective for fiscal years beginning after December 15, 1993, the estimated costs of benefits to former or inactive employees after employment but before retirement are accrued over applicable employee service periods or using a terminal accrual approach. For U.S. GAAP reporting purposes, Bell Canada's accumulated transition obligation, estimated at $59 million (net of applicable income taxes of $42 million) as at January 1, 1994, is recognized in 1994, in accordance with the provision of the above Statement and using the terminal accrual approach. In the absence of a formal similar Canadian pronouncement on the subject, these costs are charged to income when paid, under Canadian GAAP. If a similar Canadian standard were adopted, it is expected that in setting Bell Canada's rates for telecommunications services, the regulator would take such a standard, including any transition provisions, into account.

Selected financial and other data[1]

	1994	1993	1992	1991	1990
			(dollars in millions)		
Selected financial data					
Total operating revenues	**$ 8,066.2**	$ 7,957.4	$ 7,862.8	$ 7,729.0	$ 7,654.7
Net income	**793.4**	871.1	1,006.1	986.0	965.7
Net income applicable to common shares	**721.3**	795.8	930.7	912.4	898.7
Dividends	**893.1**	886.9	886.4	806.7	773.5
Operating cash flow	**2,652.6**	2,599.3	2,484.0	2,295.8	2,306.1
Cash flow from operations	**2,356.0**	2,703.4	2,493.9	2,424.0	2,557.5
Free cash flow	**(135.7)**	(292.9)	(999.8)	(660.2)	(517.7)
Total assets(2)	**18,902.9**	18,944.5	18,414.4	17,162.5	16,605.0
Long-term debt(2) (including current portion)	**6,298.6**	6,083.5	5,746.2	5,447.8	5,185.6
Preferred shares(2) (redeemable)	**985.0**	960.0	960.0	983.5	850.0
Common equity(2)	**7,703.0**	7,802.9	7,643.7	7,224.1	6,945.3
Net capital expenditures	**1,639.9**	2,138.4	2,688.0	2,329.8	2,343.7
Financial ratios					
Per cent return on average common equity	**9.29**	10.4	12.5	12.9	13.2
Per cent return on average common equity for regulatory purposes	**9.7**	10.5	12.7	12.9	13.2
Interest coverage ratio	**3.16**	3.37	3.77	4.03	4.04
Operating cash flow interest coverage (3)	**5.2**	5.1	5.2	5.2	5.5
Interest as a per cent of total average debt	**9.4**	9.5	9.9	10.2	10.1
Debt as a per cent of total capital(2)	**43.1**	42.4	42.1	40.1	40.3
Per cent return on average total capital	**9.2**	9.9	11.1	11.4	11.6
Net operating cash flow as a per cent of net capital expenditures(4)	**107**	80	59	64	65
Net operating cash flow as a per cent of average total debt(4)	**26**	26	27	28	30
Credit ratings (senior unsecured debt)					
Canadian Bond Rating Service	**A+(low)**	A+(low)	A+	A+	A+
Dominion Bond Rating Service	**AA(low)**	AA(low)	AA	AA	AA
Moody's Investors Service	**A1**	Aa3	Aa3	Aa2	Aa2
Standard and Poor's Ratings Group	**A+**	A+	AA	AA	AA
Other statistics					
Network access services (thousands)(2)	**9,727.2**	9,461.9	9,229.4	9,024.5	8,798.2
Message toll services messages (millions)(5)	**–**	–	1,758.3	1,757.6	1,702.3
Conversation minutes (millions)(5)	**10,470.1**	10,420.0	–	–	–
Number of employees(2)	**51,503**	50,982	52,897	54,632	56,530
Salary and wage payments	**$ 2,476.3**	$ 2,539.5	$ 2,561.8	$ 2,457.6	$ 2,447.2

(1) Consolidated data except per cent return on average common equity for regulatory purposes.
(2) As at December 31.
(3) Operating cash flow plus interest charges divided by interest charges.
(4) Net operating cash flow = operating cash flow minus dividends.
(5) In 1993, Bell Canada began to measure conversation minutes (defined as minutes for calls originating in Bell Canada's territory for message toll services as well as minutes for calls terminating in Bell Canada's territory for **Advantage 800**™ service) as a more suitable primary volume indicator for toll revenues. It should be noted that, in 1992, conversation minutes had been monitored on a statistical basis only.

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Directors

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Jacques Bougie, O.C.	*president and chief executive officer, Alcan Aluminium Limited*
Warren Chippindale, F.C.A.	*company director/consultant*
J.V. Raymond Cyr, O.C.	*chairman of the board, Bell Canada*
Geno F. Francolini, F.C.A.	*president and chief executive officer, Xenon Capital Corporation*
John T. McLennan	*president and chief executive officer, Bell Canada*
Gordon F. Osbaldeston, P.C., O.C.	*senior fellow, Western Business School, University of Western Ontario*
Ronald W. Osborne, F.C.A.	*executive vice-president and chief financial officer, BCE Inc.*
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Guylaine Saucier, C.M., F.C.A.	*company director*
C. Richard Sharpe	*chairman of the board, Sears Canada Inc.*
Paul-Gaston Tremblay, C.M. C.A.	*president, Primo-Gestion Inc.*
L.R. Wilson	*chairman, president and chief executive officer, BCE Inc.*
Douglas T. Wright, O.C., Ph.D.	*past president, University of Waterloo*

Officers

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John T. McLennan	*president and chief executive officer*
Josef J. Fridman	*corporate secretary*

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R. Bruce Barr	*group vice-president – marketing*
Robert F. Latham	*group vice-president – gateways and public telecommunications*
Robert D. Milne	*group vice-president – solutions (Ontario)*

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Gary D. Bray	*group vice-president – local business planning*
Pierre Brochu	*group vice-president – finance and administration*
Monic Houde	*group vice-president – communications*
Guy Marier	*group vice-president – network (Québec)*
Thomas H. Steele	*group vice-president – business transformation*
Stewart Verge	*group vice-president – network (Ontario)*

Business development and technology

John A. MacDonald	*executive vice-president – business development and chief technology officer*
Owen W. McAleer	*group vice-president – network development*
Richard D. French	*group vice-president – corporate development*

† As of March 1, 1995
** Effective March 16, 1995*

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